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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 000457

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TAGS: CH ECON EIND EINV

SUBJECT: CHINA/AUTOS: SAAB PURCHASE SPEEDS THROUGH;
DOMESTIC CAR MARKET PROSPECTS ROSY

REF: A. BEIJING 444

- 1B. 09 BEIJING 1339
- 1C. 09 BEIJING 151
- 1D. 09 SHANGHAI 96

Classified By: Economic Minister Counselor William Weinstein. Reasons
1.4 (b,d)

11. (C) Summary: High level Chinese government support enabled Beijing Automotive Industry Holding Co., Ltd. (BAIC) to complete its USD 200 million purchase of General Motors' (GM) Saab Unit in a mere four months, according to BAIC officials. As a Beijing City Government controlled enterprise, BAIC had "strategic backing" for acquiring Saab assets, including intellectual property, tooling, transmission systems and powertrain technology. BAIC representatives expressed optimism regarding China's domestic auto market and BAIC's potential, noting the company was investing heavily in electric vehicle development, and planned to move into overseas markets -- expanding first in Asia, Africa, and the Middle East. End Summary.

12. (SBU) EconOffs met February 10 with BAIC representatives Wei Gang, Director of Planning and International Cooperation; Zhang Hong, Department of Investment and Capital; and Zhang Yibo, International Cooperation Department Project Manager about BAIC's Saab acquisition and market forecasts. As one of the oldest auto makers in China and employer of nearly 50,000 workers, the company had sales of 1.24 million vehicles in 2009, representing a year-on-year growth of 61.1 percent. BAIC, a state-owned enterprise under the Beijing City Government, was first established as Beijing Auto Works (BAW) in 1958 and gained fame in the 1980's as Chrysler's partner in producing the Beijing Jeep. BAIC officials passed promotional materials to EconOffs noting proudly that the company had made "great contributions" to national defense by supplying off-road vehicles such as the "Beijing Warrior" to the People's Liberation Army (PLA), as showcased in the PRC's 60th anniversary military parade.

Cruise Control through the PRC Bureaucracy

13. (C) The Saab purchase, BAIC representatives claimed, went through "about as smooth as auto acquisitions can," taking only four months start to finish (See the less-positive Hummer experience ref A). BAIC cited two main reasons for the expeditious processing: 1) the global economic crisis encouraged the U.S., Swedish, and Chinese governments to facilitate auto industry reorganization; and 2) BAIC's status as a state-owned enterprise, with its headquarters in Beijing, expedited the necessary approvals. BAIC representatives implied they received special treatment because paperwork was funneled to the right people in the right offices, resulting in some cost alleviation. BAIC and all parties viewed the Saab purchase as a mutually beneficial

deal, which also contributed to the easy processing: GM was able to sell off an asset that was struggling in the West, and BAIC was able to acquire technology still useful in the Chinese market.

¶4. (SBU) BAIC purchased platforms, transmission models, and certain 9-3 and 9-5 brand-IPR from Saab. BAIC did not plan to use this technology exactly as currently formatted, but instead to adapt it for the local market, Wei Gang explained. Moreover, BAIC had begun integrating Saab platforms into its existing domestic product line already, and expected that the "Elantra" model would hit the market in 18 months.

"Lots of room for growth"

¶5. (SBU) BAIC representatives said production reached 1.24 million units in 2009, which amounted to 9 percent of the Chinese domestic market, and ranked BAIC as the 5th largest automaker in China. However, BAIC saw no company behind them as true competition and predicted the only place for them to move was up, in terms of ranking in China. BAIC cited strong market prospects, Beijing City Government backing, and new branding and technology through the Saab purchase as cause for optimism. Regarding the broader Chinese auto market, BAIC predicted continued double-digit growth the next few years: "Compared to the West, we have lots of room for growth. The number of cars per capita is low, and if we succeed only as well as we did during the global economic crisis, the industry will continue clipping along."

Battery and Electric Vehicle R&D

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¶6. (SBU) BAIC representatives described a strong commitment to R&D on Electric Vehicles (EVs), citing a newly constructed multi-purpose EVs R&D facility outside Beijing. Which companies would emerge as the EV leaders in China was unclear, Wei explained, but BAIC aimed to develop its own EV vehicle option to compete in that market. He said BAIC was investigating a partnership with U.S. company Johnson Controls for car battery technology.

Outbound Investment "Inevitable"

¶7. (SBU) When asked about the Ministry of Industrial and Information Technology's (MIIT) new directive advising that over 50 percent of domestic auto sales should be from homegrown Chinese automakers and that over 20 percent of Chinese automakers' unit sales should be abroad, Wei expected market trends would make achievement of MIIT's goals "inevitable." On the topic of outbound investment, BAIC suggested its business plan was to move abroad soon--expanding first in Asia, North Africa, and the Middle East, markets where BAIC could more easily meet local environmental and safety standards. Entering the United States or EU markets would take longer, however, but Wei maintained that BAIC would follow the maxim: "Where there is a market, we will go."

HUNTSMAN